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Oilseeds and Products Sector Update

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Oilseeds and Products

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Report Highlights:
The first tentative official data on 2014 crop production published in late March showed a higher than previously expected area and production of oilseeds in MY2014/15. Based on the new data, total oilseeds area in MY2014/15 is increased by 4% and total production by 12%.
Recent dynamic development of the oilseeds sector outlines key new trends in MY2014/15 and MY2015/16 as follows:

- Declining rapeseeds area due to lower profitability, the ban on neonicotinoids and current less optimistic prospects for the biofuel industry development in the EU,
- Expanding sunflower areas stimulated by new demand for high oleic and confectionary sunflower seeds stimulated by good local and export demand,
- Rapeseed exports in MY2014/15 to date exceed last year trade while sunflower exports are behind the pace than a year earlier,
- Record high increase in the crush capacities for sunflower seeds along with its modernization and ability at select crushers to also process rapeseeds and soybeans. For MY2014/15 and

MY2015/16 crush of both rapeseed and sunflower seeds is projected to grow,

- Considerable increase in exports of sunflower and rapeseed meals and oils,
- New local and export demand for hi-pro sunflower meal and high oleic sunflower oil,
- Stabilization of the recently established sector for processing of sunflower for confectionary purposes due to good export potential.

General Information:
Weather

The year 2014 will be remembered as one of the rainiest years in Bulgarian agriculture. Summer weather was not typical with higher rainfall, cooler temperatures and frequent hail storms and floods in select locations. Sunflower suffered from weak pollination. The weather resulted in lower quality but better average yields for rapeseeds and sunflower. Frequent rains in the fall delayed sunflower maturation and harvest works. Reoccurring rains prevented farmers from planting the planned area under wheat and barley and led to intentions to compensate for the reduction in planted areas with higher areas under spring crops, corn and sunflower in 2015.
Winter was milder than usual with abundant rainfall and snowfall but much longer. In the first 10 days of April, the country was still in snow, it has not seen more than a few dry days, and the soil moisture in most fields is evaluated to be at its highest level for the last several years. Floods around rivers and dams became frequent with waterlogged soils in many locations. This prevented more massive spring planting, especially in Sothern Bulgaria, and is expected to push planting to the second part of April thus shortening the optimum planting window and making it more challenging. Delayed spring planting is expected to affect mainly the expansion of sunflower area. Rapeseed crop is in very good shape with minimal winter losses.

Oilseeds Production and Supply

In late March, the Bulgarian Ministry of Agriculture (MinAg) published its first tentative official data about 2014 crops and updated its previous post-harvest data which has been used so far by the MinAg Grain and Feed Agency (GFA) in its monthly bulletins.

Planted and harvested areas and production under both rapeseed and sunflower seeds MY2014/2015 are recorded higher than previous industry and FAS/Sofia estimates, and more than MinAg post-harvest estimates. The old and updated data is shown in Table 1.

Based on new data, total oilseed area in MY2014/15 was increased by 4% and total production by 12%. Rapeseeds area and production grew by 44% (area) and 60% (production), respectively, compared to MY2013/14. Sunflower area decreased by 2% while production was 4% higher vs MY2013/14. FAS/Sofia produced its first forecast for MY2015/16 which is described in Table 2.

Table 1. Major 2014 Grains and Oilseeds Crop Estimates as of October 2014

Crop Years MY 2014/15 vs. MY 2013/14	**Harvested Areas (,000 HA)**		**Production (,000 MT)**	
	MY2014/15 (est.)	MY2013/14 (final official)	MY2014/15 (est.)	MY2013/14 (final official)
Rapeseeds	192 planted (MinAg)	132	528 (MinAg) 489 (GFA)	330

	190 harvested (MinAg) 170 (earlier FAS estimate)		500 (earlier FAS estimate)	
Sunflower	849 - planted (MinAg) 843- harvested (MinAg) 785 (earlier FAS estimate)	861	2,009 (MinAg) 1,931 (GFA) 1,950 (earlier FAS estimate)	1,939
Total	1,033	993	2,537	2,269
Note: MY2013/2014 are final official MinAg data per the Statistical Office Bulletin #269/June 2014; MY2014/2015 estimates are based on MinAg data per the Statistical Office Bulletin #283/March 2015				

Table 2. First FAS/Sofia Forecast for MY 2015/16 (as of early April 2015)

Crop Year MY2015/16	**Harvested Areas (,000 HA)**	**Average Yields (MT/HA)**	**Production (,000 MT)**
Rapeseeds	162 - planted 160 - harvested	2.75	440 400-460 (industry estimates)
Sunflower	860 - planted	2.15	1,850 1,750-2,100 (industry estimates)

Soybeans

Bulgaria opted to apply the program for support of protein crops under the EU-Common Agricultural Policy 2014-2020. The budget under this program for 2015 is 31.8 million leva (15.8 million Euro) which is 2% of the total domestic support limit. The rate of subsidy per hectare will depend on the area finally declared by farmers. The list of eligible crops is long and provides many options. It includes dry beans, feed peas, lentils, peanuts, soybeans, alfalfa, chickpeas, etc. or a total of 15. The protein subsidy is provided if the farmer has at least 0.5 HA of these crops. At the same time, protein crops meet the requirement of greening under the Single Area Payment Scheme (direct subsidies). For this reason, if a farmer plants protein crops, he/she will be eligible for both types of subsidies – for protein crops and for greening (in those cases when the farm must adopt the greening element). This sharply increased farm interest towards growing protein crops in 2015.

The size of the ag land subject of greening is conditionally estimated at 5% of total 3.5 MHA arable land or about 180,000 HA. There is much speculation as to how much of this land will be planted with protein crops and how much will be left as fallow land. The fallow land has the highest number of points to be counted as a green element towards subsidies, however, it does not yield anything. It is expected that due to the lack of experience with the greening requirements, and lack of experience with protein crops, many farmers will still prefer to leave some of their land as fallow land and adopt a "wait and see" approach in 2015. There are numerous speculations about the size of fallow land with estimates varying from 30,000 HA to 70,000 HA.

Other farmers prefer to take the risk and plant protein crops. Farmers make their decisions based on which crops are more commercialized and in better demand, which crops will require minimum investment in new/adapted technology(equipment) for growing and storage, and which crops may bring the highest subsidy. Since the market for protein crops is very new, subsidies are the major driver behind farm decisions. Current calculations show that if a farmer grows soybeans, he/she will be eligible for the following subsidy (rough general estimate): 160 leva (82 Euro)/HA direct payments; 120 leva (61 Euro)/HA green subsidy; 305 leva (156 Euro)/HA protein subsidy, or total 585 leva (300 Euro)/HA (the protein subsidy is calculated based on 100,000 HA planted under protein crops).

Currently, farmers indicate the highest demand is for growing soybeans. This subsidy is considered to be very attractive and many think that it will compensate production expenses and will provide 30%-40% profitability even if the yields are around 2+ MT/HA. In addition, the Danube Soya Association made several outreach events to farmers over the last year to promote its activity and production of non-GMO soybeans in the region, especially if it is certified. This led farmers to believe that the market for conventional soybeans will be favorable.

Over the last 15 years Bulgaria did not produce any commercial quantities of soybeans and in 2014 production was below 1,000 MT. Prior to 1990 soybeans were popular crop in Central North Bulgaria where it was grown on irrigated areas. Due to the collapse of the irrigation systems and lack of crushing facilities, farmers gradually stopped growing soybeans.

The major risk related to soybeans is the local climate. Bulgaria usually has warm and dry springs and the weather in early June during flowering of the crop is often too hot and dry. The lack of atmosphere moisture during that period is believed to be the highest risk since it can lead to abortion. In addition, Bulgaria often suffers from droughts and hot summers, although over the last two years farmers enjoyed cooler weather with sufficient rainfall and soil moisture. In 2015 so far, abundant snowfall and rainfall led to record high soil moisture reserves. Many farmers believe that this will help them grow soybeans successfully (hoping that the newest genetics is more resistant to climate stress).

Some market players compare the new soybean enthusiasm with the entry of rapeseed several years ago. Rapeseed is not a typical crop for Bulgaria and was considered more appropriate for a northern climate. However, the crop got quickly established, areas increased from zero to average 200,000 HA, and today farmers benefit from excellent yields and higher income. Nevertheless, 2015 will be a test or a pilot year for soybean production in Bulgaria.

The biggest challenges in front of the farmers today are related to the deficit of soybeans planting seeds and lack of practical experience. Importers of planting seeds report that sourcing of non-biotech seeds is challenging. Currently imports are reportedly coming from Austria, Italy, Serbia, Romania, Turkey, and the United States. Speculations about planted areas and production vary widely from 10,000 HA to 50,000 HA, and for production from 20,000 MT to 75,000 MT+.

Bulgaria does not have specialized crushing facilities destined only for soybeans crush but has a technical ability to crush soybeans at select sunflower crushers provided that the volume and margins are sufficient. Traders already plan to export most of the crop, mainly to Romania. Local crushers do not yet have plans to crush soybeans but this situation may change depending on availabilities. In general, Bulgaria is a net importer of soybean products and the market for meal and oil is favorable.

Over the last two years, imports of soybean meal increased due to better development of the poultry sector.

Rapeseed

Currently there are several key market trends on the market:

- Record high yields achieved in 2014.
- Increased crush and new players in the crush business in MY2014/15.
- Considerably higher exports of rapeseed meal and oil in MY2014/15.
- Lower planted areas in MY2015/16 and lack of motivation for further growth.

MY2015/16

Fall planting in 2014 was challenging due to reoccurring rains and frequent cold spells. Farmers made every effort to plant on time, however, some planting was done beyond the optimum planting time. Due to a milder winter, minimal winterkill has been reported to date. Losses are likely to be small with the exception of certain spots affected by floods.

Planted area declined due to lower profitability and depressed prices, as well as the changing biofuel policy in the EU which farmers interpreted as likely weaker demand for the upcoming crop. In addition, farmers considered rapeseed the highest risk crop with lower profitability which is the most appropriate for area limitations in order to introduce greening requirements. The ban on neonicotinoids was another reason for limiting the planted area. The current FAS/Sofia estimate is for 162,000 HA planted area and 160,000 HA harvested area or 6% lower than in the previous season. Currently, the crop looks very well in the fields and the average yields are expected to be good but may not reach the record level from last year. The production is forecast for 440,000 MT or 17% less than last year. The market expectations vary from 400,000 MT to 460,000 MT.

The lower production is forecast to lead to a reduction in crush, in the output of meal and oil and their exports, respectively. It is assumed that crushers can easily substitute rapeseed with sunflower seeds and eventually some soybeans.

MY2014/15

The latest MinAg data confirmed excellent yields of 2.77 MT/HA and higher than previously estimated production.

Crush:

The local crush industry is progressing and, unlike in the previous years, a few more new crushers will process rapeseed this year in addition to the traditional major crusher. Due to strong export demand for seeds after harvest, the local crushers had difficulties to compete successfully with the exporters. As a result, some crushers were forced to import unusually large volume of rapeseed from Hungary and Romania later in the season to fill their plants. This is likely to lead to a higher crush, estimated at

90,000 MT to 100,000 MT or 20% to 30% annual growth. Higher crush is motivated mainly by favorable exports of rape meal and rape oil and not so much by the local biodiesel demand. As of the spring of 2015, stocks have been depleted and crush is likely to slow down until the end of the marketing year.

MY2014/15 production of rapeseed meal and rape oil is expected to increase due to the higher crush. Our estimates are for about 50,000 MT of meal and 37,000 MT of oil which represents 20% annual growth. Most of these products are likely to be exported due to limited domestic demand. Rapeseed meal is not a typical raw material for the local feed industry. It is increasingly used at dairy farms but industry estimates that the use remains limited at 4,000 MT - 8,000 MT. Rape oil is used mainly for biodiesel and industrial purposes. Use of locally crushed rape oil for biodiesel is estimated at around 30,000 MT - 35,000 MT due to more efficient implementation of biodiesel mandates.

Trade – Table 3 and 4:

World Trade Atlas data (July - December 2014) and local GFA monthly bulletins show the following trade data:

Table 3. Rapeseed Trade, July-December 2014

Rapeseed HS#1205	**WTA (July-December 2014)**	**GFA as of end-March 2015**
Imports	13,602 MT (EU)	30,636 MT (EU)
Exports	457,054 MT (83,718 MT to non-EU countries and 373,336 MT to the EU) Including: 80,945 MT - Turkey 128,006 MT - Greece 90,797 MT- Belgium	464,923 MT (59,415 MT to non-EU and 405,508 MT to the EU)

Based on the above estimates, we currently forecast MY2014/15 imports at 32,000 MT and exports at 465,000 MT - 470,000 MT which is a significant growth in exports of 71% compared to the previous season (274,000 MT). The main export destinations in the current season are Greece, Turkey, and Belgium, while a year ago France was the leading export market with 110,000 MT. It is believed that due to lack of stocks, rapeseed exports for the year are already executed.

Exports of rapeseed meal and oil have been growing to record levels due to favorable demand and competitive prices. For the first half of MY2014/15, exports of meal are 45% higher than a year earlier, and exports of oil are 9% more than in the previous year.

Based on the trade data for the first half of the marketing year (Table 4), FAS/Sofia forecasts annual rapeseed meal exports to reach about 50,000 MT and rapeseed oil exports 14,000 MT.

Table 4. Rapeseed Meal and Oil Trade, July – December 2014.

	WTA (July-December 2014)
Rapeseed Meal Imports	1,448 (Romania)

(HS#230641, 230649)	
Rapeseed Meal Exports (HS#230641, 230649)	43,211 MT Including: 18,894 MT - Spain 14,250 MT - Germany 5,484 MT – Morocco
Rapeseed Oil Imports, HS#151411, 151491, 151499	233 MT (EU)
Rapeseed Oil Exports HS#151411, 151491, 151499	11,573 MT Including: 9,991- The Netherlands

Sunflower

There are several new market trends in the sector today:

- Record high yields achieved in 2014;
- Record increase in the crush capacities over the last several years due to investment and modernization. This is expected to lead to higher crush in MY2014/15 and in the future;
- Considerably higher exports of sunflower meal and oil in MY2014/15;
- Increasingly established business for production and exports of sunflower peels pallets as a biomass for energy use;
- Further growth in planted areas in MY2015/16 as a result of market entry of high-oleic and confectionary sunflowers.

Over the last three years, local crushers invested in expansion and upgrading of their capacities and new plants have been built. There is no official data about the currently available crush capacity but industry estimates vary from about 800,000 MT in the past to 1.8 MM to 2.3 MMT or average about 1.9 MMT - 2.0 MMT. Select plants have the technical ability to crush also soybeans and/or rapeseeds. At present, there is no public or industry data about the capacity for crush for each oilseeds crop, however, sunflower dominates with more than 90%.

As a result of active investment, local crushers have been increasingly competing with exporters with intention to utilize the new capacity. Estimates about the use of capacities vary but are currently low at 33% to 38% with prospects for a growth in the near future. Based on current production levels for sunflower seeds, the country has the potential to practically crush all produced crop. For this reason, we forecast a tendency of decreasing exports of sunflower seeds in the future on the expense of growing local crush.

Domestic crushers have been proactive in developing export markets for meals, oils and pellets made from sunflower peels. Despite recent policies to support domestic dairy/ livestock and poultry sectors, overall feed consumption remains rather stagnant or with minimal growth while exports offer better opportunities for faster growth and improved margins. Over the last year, exports of sunflower meal and oil enjoyed stable growth.

MY2015/16

Farmers plan to expand sunflower area in the spring of 2015 due to a reduction in the planted wheat area which will free up more land. In the fall of 2014, major market leaders introduced high-oleic sunflower programs for 2015 and enjoyed a high interest among farmers. Leading producers reported that they will try growing high oleic, and also confectionary sunflower which so far have enjoyed higher premium prices and stable demand. Current farmer reports, however, indicate that still the emphasis will be first on corn expansion, followed by sunflowers.

Local crushers have not developed yet special contracting programs but the industry is getting prepared to launch pilot tests this year. Confectionary sunflower is also expanding its market presence. This production is driven by local processors as some of them launched contracting programs which include supply of planting seeds and inputs:

- High Oleic (HO) Sunflower – First planting of HO sunflower emerged in MY2014/15 on limited area. Due to rainy weather and lack of production experience with the new technology, the crop suffered from more diseases (mildew); quality was questionable and farmers had overall negative experience as they did not receive the expected premiums. However, in MY2015/16 select players offered complete programs including supply of genetics and inputs with an option for purchasing of the ready product. Farmers have been attracted by the opportunity to access premiums in times of depressed prices. On the other hand, they are concerned about extra requirements related to the technology such as isolation strips, strict content of oleic acid, crop segregation, and the risk of lower yields. Most farmers take the risk to plant a portion of their dedicated sunflower area with HO type as a test and as a way to gain more practical experience. Industry estimates for planted areas very widely from 40,000 HA to 80,000 HA or about 10% of total sunflower area. Reportedly, planting seeds were imported from France, Hungary, Turkey, the United States and Spain. Select industry representatives are optimistic that if this year is successful, areas under HO sunflower can quickly grow and reach half of the total area in the next 5 years,

- Confectionary Sunflower – Over the last several years a number of small and medium size businesses have invested in so called sunflower peeling facilities. No public or industry data about the number of these units exist, we estimate their total number at about 80 with a capacity of 100,000 MT up to 230,000 MT. Initially, these units started with peeling of regular sunflower seeds of larger size for snacks and/or confectionary purposes. Later, select importers began distribution of specialty confectionary genetics with lower oil content and larger seed size. Industry estimates for planted areas very from 10,000 HA to 25,000 HA in MY2015/16.

Due to the dynamic development of the local industries for processing of sunflower (crush and peeling), it is expected that Bulgaria will use more of the local supplies for domestic use in MY2015/16 and less will be exported. On the other hand, crushers will continue to face tough competition from regional rivals in the Black Sea, especially Ukraine, which offers aggressive prices of meal and oil, and which

benefits from its export duty on sunflower seeds securing raw materials in abundant stocks and at lower price. This situation may not allow rapid and fast expansion of the Bulgarian crush use.

MY2014/15

The sunflower seeds crop performed very well in 2014 with record average yields which reached 2.38 MT/HA and exceeded the previous record despite pollination problems due to rains, with reportedly slightly lower oil content and higher foreign matter presence. The latest MinAg data confirmed excellent yields and higher than previously estimated production.

Crush:
The most noticeable growth in crush occurred in the previous season (MY13/14) and it was further increased in the current year. We currently estimate crush at 760,000 MT due to attractive margins and strong expansion of crushing capacities. The MinAg has more conservative estimates at 700-730,000 MT while industry estimates as far as 850,000 MT.

The delayed harvest in the fall of 2014 due to reoccurring rains strengthened domestic prices and crushers competed hard with exporters to secure more stocks and to increase the crush. As of spring in 2015, crush is forecast to be slower in the rest of the season due to depleting stocks. Further growth in expected in MY15/16 due to local crush industry ambitious plans for aggressive purchasing and trade.

Higher crush is motivated mainly by favorable exports of sunflower meal, oil and pellets, which make crush margins more attractive. Production of sunflower meal and oil is expected to increase due to higher crush. Our estimates are for about 415,000 MT- 420,000 MT of meal and 325,000 MT - 330,000 MT of oil. These products are likely to be exported due to limited domestic market demand, especially for meal.

Sunflower meal is a typical raw material for the local feed industry and its use is increasing. We estimate the local market at 135,000 MT to 140,000 MT. Over the last year, a local market leader launched a newly patented hi-pro sunflower meal SunPro (from 46% to 50% protein content) and increased its supply on the local market and for exports. The product is considered suitable as a partial and/or full substitute of soybean meal and can be successfully used by swine, poultry, dairy, and aquaculture industries. Reportedly, the product has enjoyed rapidly increasing demand in Austria, Germany, Denmark, the Netherlands, Greece and Poland.

Sunflower oil is the primary vegetable oil in the country for direct consumption and for food industry use. The local market is currently estimated at 100,000 MT to 120,000 MT. The slow economic recovery is bringing food oil consumption back to more traditional levels (130,000 MT). In addition, about 10,000 MT to 20,000 MT were reported to be used for biodiesel.

A relatively new business for crushers is trade in pellets made from sunflower peels. Depending of the type of the sunflower meal produced, low or high protein, the percentage of peels may vary from 5% to 18%. It is reported that major crushers have technical ability to produce pellets which are in demand by local heating power stations as a high energy biomass, and for exports. Reportedly, such exports are carried out to Austria, the UK, Poland and Germany.

Trade – Table 5 and 6:

Due to delayed harvest and more intense completion between crushers and exporters, exports to date lag behind last season. Crushers secured more stocks for their own use in the first half of MY2014/15 which led to higher crush and lower exports of seeds. As of March 2015, the accumulated stocks are more than a year ago (reportedly 40% more) and it is forecast that exports of seeds will be more active from now onward until the end of the marketing year on the expense of declining crush. We currently forecast exports to reach 1.0-1.1 MMT while the MinAg estimate exports at 1.2 MMT - 1.36 MMT. Imports are projected to be not substantial at up to 40,000 MT (37,000 MT already imported to date).

Sunflower meal exports are likely to be high, estimated at 275,000 MT (2% more than in MY2013/14), with 76,000 MT already exported for the first three months of the marketing year. Sunflower oil exports are projected to reach 225,000 MT as a record amount of 173,000 MT exported during the first quarter of the marketing year (Note: some industry sources argue that WTA data is incorrect and exports are lower, especially to Germany).

Table 5. Sunflower Seeds Trade, October-December 2014

Sunflower HS#1206	**WTA (October-December 2014)**	**GFA as of end-March 2015**
Imports	21,102 MT (17,340 MT from the EU and 3,762 MT from non-EU)	36,558 MT (30,840 MT from the EU and 5,718 from non-EU)
Exports	368,535 MT (314,175 MT to the EU and 54,360 to non-EU) Including: 69,749 – Spain 57,574 - The Netherlands 53,313 – France	633,575 MT (544,449 MT to the EU and 89,126 MT to non-EU)

Table 6. Sunflower Meal and Oil Trade, October – December 2014.

	WTA (October-December 2014)
Sunflower Meal Imports (HS#2306 30)	No imports
Sunflower Meal Exports (HS#230641, 230649)	76,275 MT Including: 13,815 MT - Turkey 14,605 MT- Greece 9,968 MT- Spain
Sunflower Oil Imports, HS#1512	3,102 MT (EU)
Sunflower Oil Exports HS#1512	172,707 MT Including: 64,189 MT - Germany 13,989 MT - Greece 11,525 MT – France